Strategic Complementarity and Asymmetric Price Setting of Firms *

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Abstract

We investigate firms' price setting behavior using a large panel data for almost 10,000 Japanese firms (Tankan survey). We find the following results. First, we find strategic complementarities in firms' price setting. Second, firms' reactions to their competitors' prices are asymmetric, which accords with the theoretical prediction of quasi-kinked demand curve. Third, higher inflation expectations promote firms to adjust their prices. Fourth, the degree of strategic complementarities differs across firms, and firms with higher pricing power are likely to care less about their competitors. Fifth, we find that demand uncertainty also affects pricing.

Keywords: Demand uncertainty, Price-setting, Strategic complementarity, Survey data

JEL Classification: D84, E03, E22

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